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Lamb, Henry L.

Letter to William H. Macy, president, Seamen's...

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[1878]

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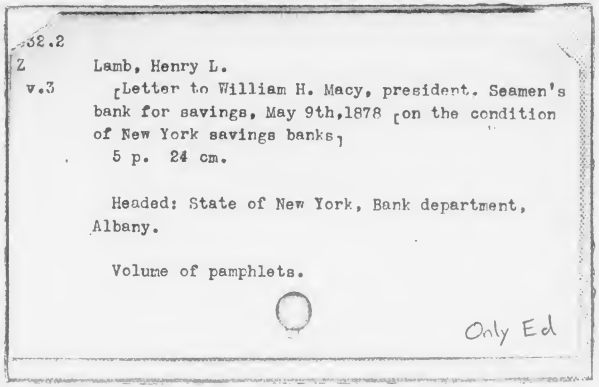

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Lamb, Henry L.
[Letter to William H. Macy, president. Seamen's bank for savings, May 9th,1878 [on the condition of New York savings banks]
5 p. 24 cm.

Headed: State of New York, Bank department, Albany.

Volume of pamphlets.

Only Ed

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TECHNICAL MICROFORM DATA

FILM SIZE: 35MM REDUCTION RATIO: 11:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 3-3-98 INITIALS: RB

TRACKING # : 31922

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STATE OF NEW YORK:

BANK DEPARTMENT,
ALBANY, *May 9th*, 1878.

WILLIAM H. MACY, *President*
Seamen's Bank for Savings:

DEAR SIR:—Many of the statements which have recently been made by alleged committees of depositors in certain failed savings banks in New York city are mischievous, because they are untrue in the statement of the real facts in the cases, and are palpably incorrect in the deductions which are drawn respecting the administration of the savings banks in New York city. Thus, I find the following resolution was adopted at a meeting of alleged depositors of the Sixpenny Savings Bank on Friday, April 26, to wit:

Resolved, That we, citizens of New York city, on behalf of depositors, hereby express our absolute want of confidence in the savings bank system, as at present administered, and the inefficiency of the laws under which they are organized and operated, believing that they do not afford protection to those whose thrift, industry and frugality enable them to lay aside a portion of their earnings.

The only effect of this declaration will be to unsettle the confidence of depositors in other savings banks, and to cause anxiety and distress of mind, in many cases needlessly. The resolution is obviously unfair in assertion and unjust in its animadversion on the savings bank system in New York.

Twenty-two savings banks have failed in six years and a half in New York city. The majority of them never ought to have been organized; they were established on purpose to fail and rob depositors, or to make paying places for men whose conduct of them would inevitably end in failure. Shall the good ones, organized for public use and benefit, and prudently and beneficently doing their work, be denounced for this?

It was also claimed at the same meeting that all the failed savings banks in New York held $11,919, 728 for depositors when they failed. The truth is, they held the sum of $12,188,771.77. It was asserted they have paid and can pay only $4,799,466, so that the total loss is $7,120,-262. Now these failed institutions have paid already the sum of $4,868,767.51, and the assets of the Six-penny and the Teutonia savings institutions were not included at all in making the balance sheet of the failed institutions. Perhaps the gentlemen who were framing the indictment of the "savings bank system" of New York city felt that it would be stronger if they dropped two and four-tenths millions of dollars in one lump out of the credit account. The best attainable information to-day from trustworthy official sources indicates that the twenty-two failed savings banks in New York will have paid to depositors within a year from July 1, 1878, the aggregate sum of $7,885,155.36, including therein the payments already made. The net loss would then be $4,303,616.41.

These failures began in November, 1871. Let us look at the matter in a general way. January 1, 1872, the savings banks in New York city reported their total assets at $170,797.000. If those deposits had then been invested in United States bonds of the various kinds at the current market prices, the loss by shrinkage to-day on the investment would be $7,173,474, taking for computation the average per cent shrinkage on government bonds. That sum exceeds the most probable loss actually incurred by the failure of the savings banks in the city of New York by the sum of $2,869,858; and United States bonds were low in price on January 1, 1872. Had the deposits in the savings banks in New York city all been invested in government bonds of the different classes on January 1, 1875, when bonds were high, the shrinkage and loss to-day would be over twenty-two millions of dollars. If these deposits had been invested in good bank stocks January 1, 1872, the loss upon them would have been quite twenty per cent or $34,159,400; or if they had been invested in the stocks of the best eastern railroad, then and now paying dividends, the shrinkage would have been near the same sum or over $30,000,000. Had such deposits been invested in real estate in New York city and its vicinity in 1872, the shrinkage would be nearer thirty per cent than

twenty, even if the investments had been made fortunately, and the loss through shrinkage would have been $45,000,000 or more.

Now, have the savings banks in New York city done so very badly, even though they have been loaded with parasitic institutions of sporadic origin, which have inflicted much loss? If the savings banks in New York be treated as a unit, it appears that since Jan. 1, 1872, they have increased their deposits from $161,106,000 to $176,261,000. And during the same period their *reserve*, their *surplus fund*, has risen from $9,613,602 on Jan. 1, 1872, to $19,006,000 on Jan. 1, 1878. In spite of all shrinkage in values, their surplus has quite *doubled*. And the savings banks which were established on false principles and for which there was no need have been removed, and so many decoys to lure the innocent and unwary, have ceased to be deluding cheats. The existing institutions are not to be rightly blamed for the losses. Their officers protested against the incorporation of political and personal savings banks, and the Bank Superintendents, for several years vainly opposed their establishment.

Taking another view, let me suppose the Federal Government had issued its proposed postal four per cent interest bonds several years ago, and that on January 1, 1872, the assets in the New York city savings banks had been invested in such postal bonds. The annual income would have been $6,831,880 from such an investment.

For five years after Jan. 1, 1872, the savings banks paid interest at the nominal rate of six per cent. Reckoning that the average actual rate was five and three-tenths per cent, the annual income from such resources of the savings banks was $9,052,241. For the other year the rate of interest was approximately four and five-tenths per cent. The income for the other year, at that rate, on such assets, would be $7,685,865. For the six years, the aggregate income is $52,947,070. In the same period the assets of the savings banks, if they had been invested in government four per cent bonds, would have paid a total sum of $40,991,280. The excess of income paid to depositors by these savings banks during this term, over the sum that would be realized from the proposed postal bond, is $11,945,790. The amount of interest paid or credited to depositors in the New York city savings banks for the last six years ending Dec. 31, 1877, is $55,727,597, namely:

Interest credited depositors in savings banks in New York city, for the years

1872	$9,070,482
1873	9,863,558
1874	9,645,415
1875	9,859,148
1876	9,135,303
1877	8,153,691
	$55,727,597

Investment of all the assets of the savings banks in New York city in government bonds in 1872 would have resulted in a present loss by shrinkage in value of seven millions of dollars, taking the ascertained average per cent decline on United States stocks as the true basis for the calculation of shrinkage.

The surplus of the savings banks in the city is nine millions greater now than it was in 1872. The difference in values now in the two kinds of investments is over sixteen millions of dollars in favor of the savings banks. If this difference in values be added to the other difference in income, the total profit to the depositors in the savings banks is twenty-eight millions of dollars for the last six years, as compared with the proposed postal bond; and the *net* profit, allowing for loss of principal in failed savings banks and the loss of interest on funds in such banks would no doubt exceed twenty-two millions of dollars.

The "savings bank system" in New York city has been exposed to two kinds of harmful influences. Corporations have been organized under the names of savings banks which had their real root in the rapacity and cupidity of bold bad men. They run a short term and robbed confiding depositors. They were no real constituent of the "system," and had none of the characteristics of the genuine savings bank. They were the "suckers" that sprung out of the exuberant growth of the system and the speculating spirit of the period, and

bore only the most superficial marks of the real savings institution. The collapse and failure of these have brought discredit upon "the system" among people not well informed and indiscriminating. The unreasonableness and injustice of the blind and inaccurate generalization of the resolution I have quoted are very clear.

Another cause which has worked to the ruin of some savings banks in the last few years is the shrinkage in prices of securities. In such as had no sufficient surplus to maintain solvency after shrinkage, the decline in values has sometimes brought them to insolvency. In others, where investments had not been prudently and circumspectly made, losses were great and liquidation was compelled. But these conditions are not peculiar to savings banks. Disaster, failure, insolvency, have marked every kind of business in the country for a half dozen years. The real savings banks have stood the trial well. The spurious "sucker" growth is nearly destroyed.

In view of what "the savings bank system" in New York has done and of what it *is* to-day, it claims fair treatment and credit according to its performance. Because savings banks hold hundreds of millions of money securely, because they "help those who try to help themselves," because they are giving aid to thousands of men in business or owning homes partly paid for, because the system has been perfected by disciplinary experience and corrective legislation, and because it is rooted in many ways directly and remotely too, in the material and moral interests of the people, "the savings bank system" of New York deserves the considerate support and demands the patient and sympathetic attention of those who study economical and social problems with the purpose of promoting public welfare and of doing "the greatest good for the greatest number."

Yours truly,

HENRY L. LAMB.

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